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C O N F I D E N T I A L NICOSIA 000813

SIPDIS

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TAGS: [ECON](#) [PREL](#) [EPET](#) [CY](#)

SUBJECT: CYPRUS TO ANNOUNCE TENDERS FOR OFFSHORE EXPLORATION, SEVERE NEGATIVE TURKISH REACTION EXPECTED

REF: A. 07 NICOSIA 675

[¶](#)B. 07 ANKARA 2206

Classified By: AMB FRANK URBANCIC FOR REASONS 1.5 (B AND D)

[¶](#)1. (C) The Cypriot Department of Energy is planning to announce the next round of bidding for offshore oil and gas exploration in Cypriot-claimed waters this November. During the first round of bidding in August, 2007, only three of the eleven blocs on offer received bids. Subsequently, only Noble Energy of Houston proceeded to negotiate an exploration and production agreement for a bloc abutting Israel's EEZ where the company currently is operating gas fields with an Israeli partner. Noble's agreement was approved by the ROC Council of Ministers in late September 2008 and is expected to be signed by the end of October.

[¶](#)2. (C) The next round of bidding, expected to take place the first half of 2009, will include the blocs contracted for in the first round as well as two new blocs at the eastern edge of Cyprus, EEZ. The U/S of the Department of Energy tells us that the 3D seismic data for these blocs indicates strong likelihood of significant liquid deposits. The Commerce Ministry believes the poor bidding results in the first round were due to Turkish saber rattling. Noble executives told us that in September, 2007 they were visited in their Houston offices by the Turkish CG in town and told that if they proceeded with the bid, the company "could never expect to do business with Turkey." Note. The Noble bloc, and all other blocs identified by the ROC at this point, are south of coastal territory administered by the Turkish Cypriots. End Note.

[¶](#)3. (C) On October 8, the President of the Turkish Cypriot Chamber of Commerce, during a general conversation with econoff, said that he believes that Turkey is very likely to again challenge the ROC's right to proceed with exploiting its offshore assets in the absence of an overall settlement to the Cyprus problem. He believes that Turkey will "at least send a warship to the area8 as it did in the run-up to the first round of bidding. In November 2007, the number two of the "ruling" Turkish Republican Party (CTP) told poloff that T/C leader Talat gave then RoC President Papadopoulos a strongly worded warning regarding the consequences of such action at their last meeting on September 5, 2007. Last month, another CTP insider told us that he hoped that Christofias would not pull anything "crazy" like starting off-shore oil and gas exploration. Otherwise, he said in all seriousness, Turkey would send the &fleet8 down.

[¶](#)4. (C) Comment: The G/Cs are aware of Turkish concerns and one contact in the Commerce Ministry told us that this is why the second round has been delayed until now. She even opined that it could be delayed again for fear of affecting the reunification talks. The ROC also wants to avoid another bidding round that results in few bids; a possibility if Turkey reacts strongly. Additional fallout from this problem

is the ROC probably blocking the opening of the Energy Chapter in Turkey's EU accession talks. The USG (and EU) position during the first round of bidding was that the ROC, as the recognized government of a sovereign state and a signatory to the UN Law of the Sea, has the right to proceed with exploring its EEZ. We defer to Embassy Ankara for assessment of potential Turkish reactions.

Urbancic